



Note: The following is an English translation of the Japanese-language original.

May 14, 2020

Company Name: Japan Petroleum Exploration Co., Ltd. (JAPEX)

Representative: Masahiro Fujita, Representative Director and President

Security Code: 1662 (First Section of Tokyo Stock Exchange)

Inquiries: Media and Investor Relations Dept.

TEL.: +81-3-6268-7110

## **Introduction of a Performance-linked Share based Compensation Plan**

Japan Petroleum Exploration Co., Ltd. (JAPEX, “the Company”) tentatively decided to introduce a performance-linked share based compensation plan for the Directors excluding the Outside Directors and Executive Officers who do not concurrently serve as Directors (hereinafter collectively referred to as “Directors, etc.”), which is called the “Board Benefit Trust (BBT)” (hereinafter “the Plan”) in the Board of Directors held today. The Plan subjects to the approval at the 50<sup>th</sup> Ordinary Meeting of Shareholders to be held on June 26, 2020, and therefore notifies as follows.

### **1. Background and the Purpose of the Plan**

The Board of Directors decided to introduce the Plan, subject to the approval at the Ordinary Meeting of Shareholders, to further clarify the linkage between compensation for the Directors, etc. and the corporate performance and share value of the Company, and to ensure that not only the benefits of increases in share prices but also the risk of a decrease in share prices is shared between Directors, etc. and the shareholders, in order to further motivate Directors, etc. to contribute to the improvement of the business performance and corporate value over the medium-to-long term. The Company has established the Nomination and Compensation Advisory Committee under the Board of Directors, in order to make the procedures for determining compensation, etc. transparent and objective, and the introduction of the Plan has been deliberated by said Nomination and Compensation Advisory Committee.

With the introduction of the Plan, the compensation of the Company’s Directors will consist of monthly compensation, bonus, and performance-linked share-based compensation. The ratio of performance-linked compensation (bonus and performance-linked share-based compensation) to total compensation is expected to be roughly 20%, after the introduction of the Plan.

## **2. Amount of compensation, etc. and reference information for the Plan**

### **(1) Outline of the Plan**

The Plan is a performance-linked share-based compensation plan under which the Company's shares are acquired through a trust, using money contributed by the Company as the financial funds (hereinafter the trust that is established based on the Plan is referred to as the "Trust"), and Directors, etc. are provided with the Company's shares and an amount of money equivalent to the market value of the Company's shares (hereinafter referred to as the "Company's Shares, etc.") through the Trust, in accordance with the Rules on Provision of Shares to Officers established by the Company. The Directors, etc. shall receive the Company's Shares, etc. upon their retirement from office, in principle.

### **(2) Persons eligible for the Plan**

Directors (excluding Outside Directors) and Executive Officers who do not concurrently serve as Directors

### **(3) Trust period**

From August 2020 (planned) until the termination of the Trust. (With regard to the trust period, we shall not set a specific date for the termination of the Trust, and the Trust will continue as long as the Plan continues. The Plan will terminate upon the delisting of the Company's shares or abolition of the Rules on Provision of Shares to Officers, or in certain other cases.)

### **(4) Trust amount (amount of compensation, etc.)**

Subject to approval at 50th Ordinary General Meeting of the Shareholders, the Company will introduce the Plan for the three fiscal years from the fiscal year ending March 31, 2021 to the fiscal year ending March 31, 2023 (hereinafter, such three-fiscal-year period is referred to as the "Initial Period," while the Initial Period and each five consecutive fiscal year period following the Initial Period are respectively referred to as the "Applicable Period"), as well as each Applicable Period that follows, and contribute money as defined below to the Trust, as the financial funds for the Trust to acquire the Company's shares for the purpose of providing the Company's Shares, etc. to Directors, etc.

The Company will initially contribute funds of up to 141 million yen (including 63 million yen for Directors) to the Trust, as the necessary funds for the Initial Period, upon establishing the Trust (August 2020 (planned)).

Furthermore, after the expiration of the Initial Period, in principle, the Company will make additional contributions to the Trust of up to 235 million yen (including 105 million yen for Directors) for each Applicable Period until the termination of the Plan. However, in the case that such additional contributions are made, if the Company's shares (excluding the number

of the Company's shares that have not yet been provided to Directors, etc. equivalent to points granted to them for each Applicable Period up to the immediately preceding Applicable Period) and money remain in the Trust (such shares and money are collectively referred to as the "Remaining Shares, etc."), the total amount of the Remaining Shares, etc. (the amount for the Company's shares shall be the book value on the final day of the immediately preceding Applicable Period) and additionally contributed money shall not exceed 235 million yen (including 105 million yen for Directors).

Moreover, the Company shall disclose information in a timely and appropriate manner, in the event of a decision to make additional contributions.

(5) Acquisition method of the Company's shares and number of shares to be acquired

The Trust shall acquire the Company's shares through the stock market on which the Company's shares are listed, or by way of subscribing to a disposition of the Company's treasury shares, using the money contributed in accordance with (4) above as the funds.

Up to 94,200 shares shall be acquired without delay, after the establishment of the Trust in the Initial Period.

The details of the acquisition of the Company's shares by the Trust shall be disclosed in a timely and appropriate manner.

(6) Calculation method of the number of the Company's Shares, etc. to be provided to Directors, etc.

Based on the Rules on Provision of Shares to Officers, the Company shall grant Directors, etc. a specified number of points determined after having given consideration to factors related to the respective fiscal years, such as their positions and the Company's business performance (from the perspective of maintaining the basic policy for long-term stable dividends, the Company plans to use the annual dividend amount as an indicator for evaluation of performance during the Initial Period, and to set a target value of 50 yen per share, with a range of fluctuation from 0% to 120%, assuming that the payout ratio at the target value is 100%). The total number of points granted to Directors, etc. per fiscal year shall be limited to 31,400 points (including 14,000 points for Directors). This was decided based on a comprehensive consideration of the current level of officer compensation, as well as trends and future prospects, etc. for the number of Directors, etc., and was judged to be appropriate.

Each point granted to the Directors, etc. shall be converted into one common share of the Company at the time of the provision of the Company's Shares, etc., as explained in (7) below (provided, however, in the case where the Company's shares become the subject of a share split, allotment of shares without contribution, or consolidation of shares, etc. after this proposal is approved, the limit on the number of points, accumulated number of points granted, or the conversion rate shall be adjusted in a reasonable manner, in proportion to the relevant ratio,

etc.).

The number of shares equivalent to the maximum number of points granted to Directors, etc. per fiscal year (31,400 shares), as a percentage of the total number of issued shares (as of March 31, 2020; excluding treasury shares) is approximately 0.05%.

The number of points for Directors, etc. to be used as the basis for the provision of the Company's Shares, etc. described in (7) below shall be the accumulated points granted to Directors, etc. by the time of their retirement from office, in principle (hereinafter referred to as the "Number of Points Held" for the points calculated in this manner).

#### (7) Provision of the Company's Shares, etc.

If a Director, etc. retires from office and fulfills the beneficiary requirements stipulated in the Rules on Provision of Shares to Officers, the Director, etc. may receive the provision of the Company's shares from the Trust after his/her retirement from office, in accordance with the Number of Points Held as explained in (6) above, in principle, by completion of the prescribed procedures to become a beneficiary. However, if the requirements stipulated in the Rules on Provision of Shares to Officers are fulfilled, a Director, etc. can receive monetary provisions equivalent to the market value of the Company's shares, in place of provision of the Company's shares, for a certain proportion. In this case, the Trust may sell the Company's shares in order to make the monetary provisions.

#### (8) Exercising voting rights

Voting rights of the Company's shares held in the Trust shall not be exercised, without exception, at the instruction of the trust administrator. This is intended to ensure that the exercise of voting rights of the Company's shares held in the Trust is neutral with respect to the management of the Company.

#### (9) Handling of dividends

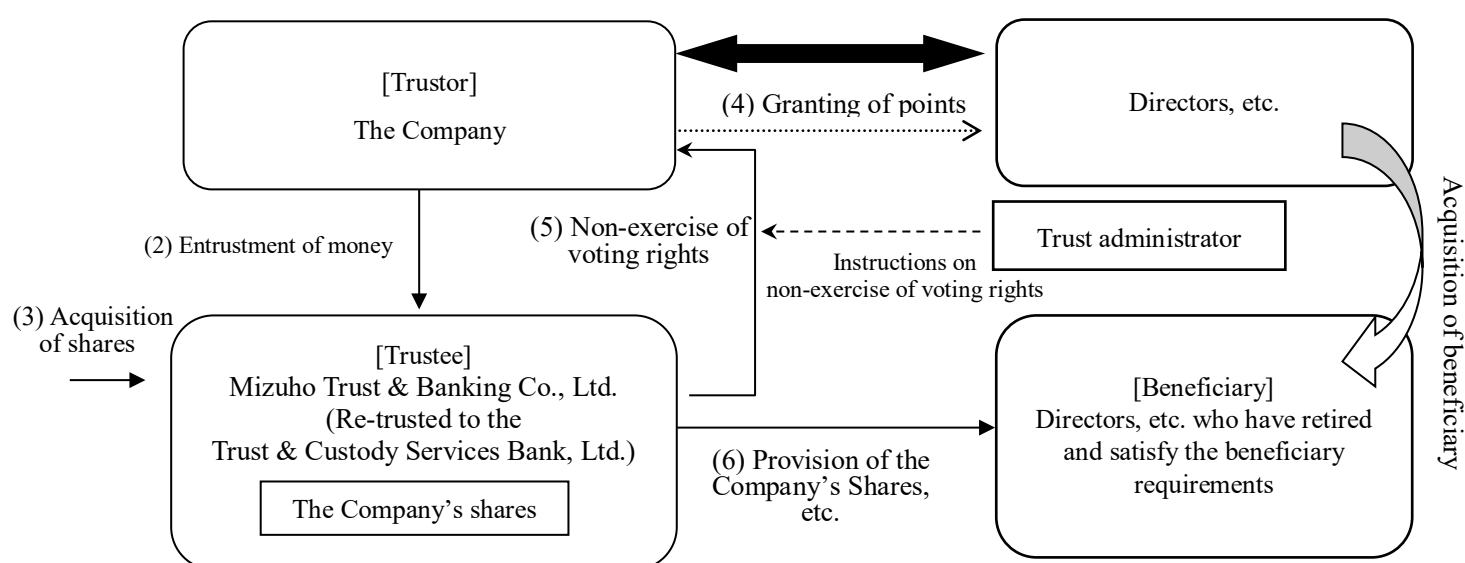
The dividends of the Company's shares held in the Trust shall be received by the Trust, and shall be used primarily for acquisition of the Company's shares, or for trust fees to the trustee pertaining to the Trust. Upon any termination of the Trust, any dividends, etc. remaining in the Trust shall be donated to organizations that have no conflict of interest with the Company or its officers, or provided to the Directors, etc. in office at that point in time in a proportionate manner, depending on the number of points respectively held.

#### (10) Handling of the termination of the Trust

The Trust will terminate in cases such as the delisting of the Company's shares or abolition of the Rules on Provision of Shares to Officers.

With regard to the Company's shares among the residual assets of the Trust at the time of termination of the Trust, the Company plans to acquire all such shares without consideration, and cancel them by resolution of the Board of Directors. Of the residual assets of the Trust at the time of termination of the Trust, the balance of said money excluding money donated to organizations or provided to Directors, etc. in accordance with (9) above, will be provided to the Company.

# <Structure of the Plan>



- (1) The Company will establish the Rules on Provision of Shares to Officers within the scope of the framework approved in this proposal.
- (2) The Company will entrust money within the scope approved in this proposal.
- (3) The Trust will acquire the Company's shares through the stock market on which the Company's shares are listed, or by way of subscribing to a disposition of the Company's treasury shares, using the money entrusted as in (2) above as the funds.
- (4) The Company will grant points to Directors, etc. in accordance with the Rules on Provision of Shares to Officers.
- (5) The Trust will not exercise voting rights of the Company's shares held in the Trust in accordance with the instructions of the trust administrator, who is independent from the Company.
- (6) The Trust will provide those individuals who retire from office as Directors, etc. and fulfill the beneficiary eligibility requirements stipulated in the Rules on Provision of Shares to Officers (hereinafter referred to as the "Beneficiaries") with the Company's shares, according to the number of points granted to the relevant Beneficiary. However, if a Director, etc. fulfills the requirements stipulated in the Rules on Provision of Shares to Officers, the Company will provide the Director, etc. with money equivalent to

[Outline of the Trust]

(1) Name:	Board Benefit Trust (BBT)
(2) Trustor:	Japan Petroleum Exploration Co., Ltd. (JAPEX)
(3) Trustee:	Mizuho Trust & Banking Co., Ltd. (Re-Trustee: Trust & Custody Services Bank, Ltd.)
(4) Beneficiaries:	Directors, etc. who have retired and satisfy the beneficiary requirements stipulated in the Rules on Provision of Shares to Officers
(5) Trust administrator:	Planned to call for the selection of a third-party with no vested interest in JAPEX
(6) Type of trust:	Money trust other than cash trust (third-party beneficiary trust)
(7) Date of conclusion of trust agreement:	August 2020 (planned)
(8) Date of entrustment of money:	August 2020 (planned)
(9) Period of trust:	From August 2020 (planned) until termination of the trust (The trust will continue, without a specific termination date, as long as the Plan continues.)

###